

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
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AMEMBASSY ANKARA

UNCLAS NICOSIA 2029

E.O. 11652: N/A
TAGS: EFIN, EAID, ELAB, CY
SUBJECT: ACTING PRESIDENT WORRIED ABOUT LABOR SHORTAGES AND
CONSUMER SPENDING

REF: NICOSIA 1997

1. IN SPEECH AUGUST 9 TO LIMASSOL CHAMBER OF COMMERCE
AND INDUSTRY, ACTING PRESIDENT ALECOS MICHAELIDES
WARNED THAT, ALTHOUGH HE DOES NOT UNDERESTIMATE "THE
ECONOMIC MIRACLE" OF THE RECOVERY FROM EVENTS OF
1974, CYPRUS IS GOING THROUGH DIFFICULT TIMES
ECONOMICALLY. HE CALLED FOR MORE CAPITAL INTENSIVE
INVESTMENT, A DIALOGUE BETWEEN WORKERS AND EMPLOYERS
TO EASE INFLATIONARY WAGE DEMAND PRESSURES AND MORE
POSITIVE AND SOCIALLY RESPONSIBLE REACTION TO INCREASED
TAXATION.

2. MICHAELIDES DESCRIBED LABOR SHORTAGE, MOSTLY IN
INDUSTRIAL SECTOR AND BUILDING TRADES, AND PROPENSITY
TO SPEND, WHICH HAS CREATED OVERCONSUMPTION, AS TWO
MOST PRESSING PROBLEMS GOC MUST FACE. HE SAID
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GOC IS REVIEWING ITS POLICY ON "EXPORT" OF LABOR
AND POSSIBILITY OF SETTING UP INDUSTRIAL UNITS IN
RURAL CENTERS NEAR POCKETS OF UNDER EMPLOYMENT.

3. THE ACTING PRESIDENT ALSO EXPRESSED CONCERN
THAT DOMESTIC SAVINGS ONLY AMOUNTED TO 5 PERCENT OF
GNP OF 1977 COMPARED WITH 12 PERCENT IN 1973.

HE SAID THIS WAS PRODUCT OF CONSUMPTION INCREASING AT HIGHER RATE THAN PRODUCTIVITY RESULTING IN INCREASED IMPORTS AND LOWER EXPORTS. THIS PROBLEM WILL, ACCORDING TO MICHAELIDES, BECOME INCREASINGLY SERIOUS AS GOC CANNOT COUNT ON CONTINUING FOREIGN AID AND LOANS TO BALANCE ITS CURRENT ACCOUNT. FINALLY HE CITED CENTRAL BANK CREDIT RESTRICTIONS, REPORTED REFTEL, AND GOC INTENTION TO RESTRICT EXPENDITURES ON LOW PRIORITY PROJECTS AS TWO WAYS GOC INTENDS TO COMBAT OVER CONSUMPTION AND SHIFT LABOR AND INVESTMENT TO PRIORITY DEVELOPMENT PROJECTS.

4. COMMENT: MICHAELIDES SPEECH IS PART OF EMERGING GOC CAMPAIGN TO STIMULATE RESTRAINT AMONG FREE SPENDING CYPRIOT COMMUNITY AND CREATE SUPPORT FOR MEASURES TO INCREASE TAXATION WHICH WILL BE DEBATED IN HOUSE OF REPRESENTATIVES IN FALL. CAMPAIGN WILL NOT BE TESTED UNTIL SUMMER VACATION PERIOD ENDS MID-SEPTEMBER. WE ANTICIPATE, HOWEVER, THAT GOVERNMENT WILL BE IN FOR SOME ROUGH SLEDDING WHEN RESTRICTIONS ON CONSUMER CREDIT BEGIN TO PINCH. BANKING CIRCLES ARE ALREADY PREDICTING DEMISE OF VIRTUALLY ALL NON-IMPORTING CAR DEALERS (WHO RELY ALMOST ENTIRELY ON BANK-FINANCED HIRE-PURCHASE) WITHIN NEXT SIX MONTHS. END COMMENT.

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